

## **Chairman Mica's Statement**

Today's hearing will focus on options for financing the Federal Aviation Administration and, more specifically, the Next Generation Air Transportation System, commonly referred to as "NGATS." This will be a major issue in next year's reauthorization of Federal aviation programs.

As discussed at the Subcommittee's hearing on Air Traffic Control Modernization in June, NGATS involves a major redesign of the air transportation system that will move much of the existing air traffic control infrastructure from Earth to sky by replacing antiquated, costly ground infrastructure with orbiting satellites, on-board automation and digital, data-link communications.

Although we do not yet have an official cost estimate for NGATS, preliminary information indicates that FAA may need, on average, an additional \$1 billion annually to implement NGATS while keeping the existing air traffic control system running.

### **Can Aviation Trust Fund Afford Increased Level Of Investment?**

One issue that I hope to address today is whether or not the Aviation Trust Fund can afford to provide this increased level of investment. Trust fund revenues are down significantly from the levels that were projected prior to the terrorist attacks of September 11, 2001. The 9/11 attacks, combined with weak economic conditions and lower airfares, resulted in three consecutive years of declining trust fund revenues – from \$10.5 billion in fiscal year 2000 to \$9.3 billion in fiscal year 2003.

Although revenues have since been on an upward trend, they are still below what was once expected, and the uncommitted cash balance in the Trust Fund has been dramatically reduced – from \$7.3 billion at the end of fiscal year 2001, to \$1.9 billion at the end of fiscal year 2005.

Even if Aviation Trust Fund revenues are sufficient to pay for NGATS, achieving a \$1 billion increase in FAA's budget will still be difficult under current budget rules. This is because aviation user charges are currently subject to a split budget treatment, whereby the revenues from aviation system users come in on the mandatory side of the budget, but must be spent on the discretionary side of the budget, where they are subject to discretionary spending limits. Therefore, under current budget rules, spending from the Trust Fund must compete with all other discretionary spending in the Federal budget, making it difficult to achieve the substantial budget increase that will be needed for NGATS.

### **Not Implementing NGATS Could Cost Economy \$400 Billion By 2025**

Rather than focusing solely on the cost of implementing NGATS, it is important to recognize the cost of not doing so. According to the Joint Planning and Development Office, by the year 2020, the cost to our economy of not implementing NGATS would reach \$40 billion per year.

In addition to this enormous economic loss, a failure to implement NGATS could have a huge price tag in terms of foregone productivity savings. According to some estimates, a failure to implement NGATS would result in FAA operating costs that are \$29 billion to \$49 billion higher over the period from 2006 - 2025.

Viewed in these terms, the cost of not implementing NGATS clearly far exceeds the cost of implementing NGATS, possibly by more than \$400 billion from now through 2025.

Unfortunately, in today's constrained budget environment, the immediate need to finance everyday operations often takes precedence over longer term capital investments.

We have the same problem with in-line Explosives Detection Systems. Despite the fact that these systems more than pay for themselves in productivity savings in just a few years, we have been unable to adopt a common-sense solution that would provide the up-front capital investment that is required to deploy these systems in a timely manner. This is penny-wise and pound-foolish.

### **Federal Agencies Use Variety Of Methods To Finance Capital Assets**

In the face of budget constraints, Federal agencies have used a variety of methods to finance capital assets. Two such methods that have been mentioned in the context of NGATS are leasing and "bonding." In addition, cost-based user fees that could be spent outside the discretionary spending limits have also been discussed.

In preparation for next year's FAA reauthorization bill, when the current aviation excise taxes must be either extended or replaced, the FAA has called for a dialogue on alternative ways to finance the aviation system in the future.

The FAA believes that certain industry trends, such as lower airfares and the use of smaller aircraft, will exacerbate the "mismatch" between its workload and its revenues in the future.

Cost-based user fees are often mentioned as one way to link aviation revenues more closely to FAA's costs and, potentially, to its funding. To the extent such fees can be linked to FAA's funding, they could provide a way to fund needed investments in our aviation system.

Today's panel of expert witnesses is uniquely qualified to help us explore the pros and cons of each of these approaches to financing the FAA and NGATS.

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